



GUIDANCE ON EDUCATION COLLABORATIVES' CALCULATION OF SURPLUS AND CUMULATIVE SURPLUS FUNDS *(revised 2026)*

Purpose: To ensure that the calculation of surplus and cumulative surplus funds is consistent across all education collaboratives and reported in accordance with statute and regulations.

Calculating surplus and cumulative surplus for education collaboratives involves first determining which revenues and expenditures belong to the General Fund, then calculating the difference between monies received and expended, and finally tracking any unspent balance over time. Each collaborative must adhere to the financial and budgetary requirements governing education collaboratives in Massachusetts, as outlined in M.G.L. c. 40, § 4E and 603 CMR 50.00.

This guidance defines key terms, explains the calculation of surplus and cumulative surplus, and provides additional information that is essential to sound financial oversight. Please use the cumulative surplus worksheet and follow the step-by-step instructions provided in the Appendix.

Key Terms:

The Collaborative Fund: The Collaborative Fund is a dedicated financial account or financial ledger established and managed by the collaborative board of directors (board) for the operation of the collaborative. All monies contributed by the member cities or towns or charter schools and all grants or gifts from the federal government, state government, charitable foundations, private corporations or any other source shall be paid to the board and deposited into the Collaborative Fund.¹

Segregation of Funds: The segregation of funds helps to ensure proper financial management and compliance with applicable laws and collaborative agreements. Collaborative Fund monies are segregated into distinct sub-funds, each designated for a specific purpose. Segregating such monies prevents the co-mingling of funds within the Collaborative Fund. This practice should also help to distinguish which revenues and expenditures should be included in the calculation of surplus and cumulative surplus.

General Fund: The General Fund is the primary operating fund of the collaborative and is used to account for all financial resources that do not qualify to be accounted for in another fund. The primary funding sources in the General Fund are typically tuition, dues/and fees for service and other agreements with member and non-member districts, and unrestricted funds. All financial activity for the operation of the collaborative shall be considered General Fund activity with limited exceptions, such as activities related to grants, gifts or contracts.²

¹[M.G.L. c. 40, § 4E \(c\).](#)

²[603 CMR 50.07\(5\)\(b\).](#)

Surplus: The surplus is the amount of unspent/unassigned General Funds at the end of a fiscal year. It is like money left over after paying all your bills for the year. These unexpended funds are determined to be the surplus.³

Cumulative Surplus: The cumulative surplus is the total amount of General Fund monies carried forward from previous years, plus the current year's surplus.⁴ Collaboratives are limited in the amount of cumulative surplus funds they can carry forward for use in subsequent budget cycles.⁵

Determining Surplus:

All collaboratives should ensure that the accounting system clearly segregates revenues and expenditures appropriately.

- A. **Identify total General Fund revenues:** This includes all the money the collaborative brought in to support the general operation and day-to-day instructional and administrative activities of the collaborative (e.g. tuition payments from members and non-members, fees for service, dues, and assessments, but not revenue from grants, gifts or contracts). Any revenues that do not qualify to be accounted for in another fund are General Fund revenues.
- B. **Identify total General Fund expenditures:** This includes all financial resources spent during the fiscal year that were not legally restricted to another fund and supported the operations and activity of the collaborative. Examples of General Fund expenditures include salaries, program costs, administrative expenses for serving members and non-member districts, deposits to an approved capital reserve fund and/or to an irrevocable trust for retiree benefits/Other Post Employee Benefits (OPEB) accounts.
- C. **Calculate the surplus:** Subtract the General Fund expenditures from the General Fund revenues to determine the surplus. For example, if the collaborative generated \$1 million in General Fund revenues and expended \$950,000 from the General Fund, the surplus would be \$50,000.

Cumulative Surplus Reduction (If applicable): Cumulative surplus in **excess** of the agreement limit or 25 percent of the audited year's General Fund expenditures must be returned or credited to member districts consistent with M.G.L. c. 40, § 4E, 603 CMR 50.07(9) and with the process outlined in the collaborative agreement.

In 2020, the Department explicitly outlined the following surplus reduction process in guidance, to assist education collaboratives with permissible uses of **excess** cumulative surplus at the time of the prior year's audit vote:

1. **Credited** to member districts for tuition, services, etc. These credits must be used by the end of the fiscal year, in which the vote is taken.

³ [603 CMR 50.07\(9\)](#).

⁴ [Ibid.](#)

⁵ [Ibid.](#)

2. **Deposited** into an irrevocable trust and/or reserve fund. These deposits must be allocated by a board vote to an approved capital reserve fund and/or to an irrevocable trust for retiree benefits or OPEB. Once allocated, such funds are no longer available to the collaborative for any other purpose. Deposits must be made within 30 days after the vote of the board.
3. **Returned** to the school districts/towns. The board must follow the process as outlined in the collaborative agreement for returning surplus funds to member districts. The return of funds must be made within 30 days after the vote of the board.

Reminders:

General Fund Expenditures: For purposes of determining the surplus, General Fund expenditures include operating expenditures supporting day-to-day instructional and administrative activities, as well as deposits made during the audited year from the General Fund to an approved capital reserve fund and/or to an irrevocable trust for retiree benefits or OPEB.

Unexpended General Funds: Only unexpended general funds are included in the surplus calculation.

Restricted Funds: Funds that are restricted for special purposes such as grants and contracts with unspent balances, capital reserve balances, irrevocable trust for retiree benefits or OPEB fund balances, are not part of the General Fund, and as a result are not part of the surplus or cumulative surplus calculation. (See also “Other Surpluses” below)

25 Percent Limitation⁶: Massachusetts education collaboratives have a limitation on how much cumulative surplus they can retain. Unless the collaborative has a lower limit in their collaborative agreement, the limit is 25 percent of the most recent fiscal year’s General Fund expenditures.

Board Approval: 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. If the cumulative surplus amount is above the 25 percent limit, the board must vote to reduce the cumulative surplus, as outlined in this guidance in order to comply with the law.

Audited Financial Statements and Independent Audit Report: The definitive calculation of cumulative surplus is made after the annual independent audit is completed and accepted by the board. The board must annually vote to accept the annual independent audit and approve the amount designated as cumulative surplus as referenced above. The audited financial statements and the independent audit report contain values that are to be included on the cumulative surplus worksheet.

Collaborative Budgets: Each board must annually propose and approve a budget for the

⁶ [603 CMR 50.07\(9\)](#).

upcoming fiscal year. Proposed budgets must be discussed at a public meeting of the board, with written advanced notice provided to member districts. At least ten working days after the budget is first proposed to the board, the board must hold a meeting and approve, by at least a majority vote, the collaborative budget for the upcoming fiscal year. Among other requirements, the board must follow the process outlined in the collaborative agreement for the development and approval of the budget (as well as the tuition rates, surcharges, membership dues, and fees-for-service). The collaborative budget should reflect all planned financial activity, and certain expenditures and revenues must be segregated in the collaborative budget. Board members have a fiduciary responsibility to monitor the budget throughout the year.

Permissible use of Cumulative Surplus Funds in Budget Planning⁷: (within the 25 percent limit): The board, in accordance with the collaborative agreement and all relevant laws, may use cumulative surplus funds in a variety of ways, including to:

- Support any current or subsequent year's budget item (for example):
 - create a new program or service;
 - enhance an existing program or service;
 - support an unexpected expense; and/or
 - stabilize tuitions;
- Credits to member districts
- Refund checks issued to member districts
- Deposits to restricted accounts (Capital Reserve, irrevocable trust/OPEB)

Other Surpluses: As applicable, all grant, gifts and/or contract revenues (excluding agreements or contracts with districts), together with their related expenditures and any resulting surpluses, that are not part of the General Fund, must be accounted for separately and used in accordance with the specific requirements of the applicable grants, gifts, and contracts.

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Appendix

Cumulative Surplus Instructions and Worksheet

The cumulative surplus worksheet is designed to assist the collaborative board of directors to calculate the cumulative surplus, determine whether that surplus exceeds the allowable limit, and report any board approved reductions, if made. Formulas have been embedded within certain fields, to assist with the calculation of the cumulative surplus and its corresponding percentage of the collaborative's reported General Fund expenditures in any given fiscal year.

Once completed the worksheet should reflect both the collaborative board's determination of surplus (amount), the cumulative surplus percentage, and the assignment of any cumulative surplus in excess of the 25 percent limitation.

To activate the worksheet double click or right-click inside the table, then choose "Open Worksheet Object."

Line 7: Cumulative Surplus as of June 30, 2025 (A)

Enter the FY25 Unassigned General Fund Balance (from the FY25 financial statements).
This is your beginning cumulative surplus.

Lines 11-15: Board Approved Uses of Cumulative Surplus in FY26

Enter the amounts approved during FY26:

- (b1) Used to support FY26 budget
- (b2) Used to support FY27 budget
- (b3) Credits to member districts
- (b4) Checks issued to member districts
- (b5) Deposits to restricted accounts (Capital Reserve, irrevocable trust/OPEB)

Lines 18-20: FY25 Surplus Reductions Occurring in FY26 (from FY25 cumulative surplus worksheet, if applicable)

Enter the actual amounts reduced or returned during FY26:

- Credits to districts
- Deposits to trusts/reserves
- Returned checks

These amounts must include any board voted excess cumulative surplus resulting from the need to reduce the FY25 cumulative surplus to or below the 25 percent limit.

The total of the **Board Approved Uses of Surplus** will tabulate on **Line 9 (B)**.

Line 22: FY26 Unexpended General Funds (C) (FY26 Unassigned Fund Balance)

Enter the FY26 Unassigned Fund Balance from the FY26 financial statements.

Line 24: FY26 Cumulative Surplus as of June 30, 2026 (D)

Line 24 will calculate the FY26 Cumulative Surplus ($D = A - B + C$)

Line 26: FY26 Total General Fund Expenditures (E)

Enter the FY26 General Fund Expenditures from the FY26 financial statements.

Line 28: FY26 Cumulative Surplus Percentage (F)

Line 28 will calculate the cumulative surplus percentage ($F = D \div E$)

Line 30: Allowable Cumulative Surplus based upon Expenditures (G)

Line 30 will calculate the allowable cumulative surplus⁸ (.25 × E)

Lines 35, 37, and 39 will populate.

If line 35 exceeds line 30, the board must vote to reduce the excess cumulative surplus and enter the amount(s) on lines 43, 44 and or 45.

Enter reductions:

Line 43: (h1) Credits to member districts

Line 44: (h2) Deposits to trust/reserve funds

Line 45: (h3) Returned checks

Line 41 will calculate the **Total Amount of Reductions (H)**

Line 48 will calculate the **FY26 Cumulative Surplus after Reductions** and

Line 50 will calculate the **FY26 Cumulative Surplus Percentage after Reductions.**

⁸ This formula assumes an allowable cumulative surplus of up to 25 percent. If your collaborative agreement utilizes a different limit, the formula must be adapted accordingly.

FY26 Cumulative Surplus Worksheet

This cumulative surplus worksheet is designed to assist the collaborative board of directors with the calculation of cumulative surplus, the determination of whether it exceeds the allowable limit of 25 percent of the audited year's General Fund expenditures, and the disclosure of any board approved reductions, if made. Formulas have been embedded within certain fields, to assist with the calculation of the cumulative surplus and its corresponding percentage of the collaborative's reported General Fund expenditures for any given fiscal year.

To activate the worksheet double click inside the table below, or right-click, then choose "Open Worksheet Object."

[Enter Collaborative Name]

Cumulative Surplus Calculation			
	Fiscal Year 2026	Enter values below	Page in FY26 FS
(A) Cumulative Surplus as of 6/30/25 <i>(FY25 Unassigned General Fund Balance)</i>		\$-	(A) p.
(B) Board voted uses of cumulative surplus funds during FY26		\$ -	(B) p.
b(1) used to support the FY26 budget		\$-	p.
b(2) used to support the FY27 budget		\$-	p.
b(3) issued as credits to member districts		\$-	p.
b(4) issued as a check(s) to member district(s)		\$-	p.
b(5) deposited to a restricted account(s) <i>(OPEB/Capital Reserve)</i>		\$-	p.
FY25 Cumulative Surplus after REDUCTIONS <i>(if applicable)</i>			
Credited to member districts for tuition, services, etc.		\$-	
Deposited to an established trust and/or reserve fund		\$-	
Returned (check) to school districts/towns		\$-	
(C) FY26 Unexpended General Funds <i>(FY26 Unassigned General Fund Balance)</i>		\$-	(C) p.
(D) Cumulative Surplus as of 6/30/26	(A) - (B) + (C) = (D)	\$ -	
(E) FY26 Total General Fund Expenditures		\$-	(E) p.
(F) FY26 Cumulative Surplus Percentage	(D) ÷ (E)	#VALUE!	
(G) Allowable Cumulative Surplus based upon Expenditures		\$-	
FY26 CUMULATIVE SURPLUS REDUCTION <i>(if necessary)</i>			
Allowable uses of surplus to reduce excess to or below the 25% limit			
(D) Cumulative surplus as of 6/30/26 before Reductions		\$ -	
(F) FY26 Cumulative Surplus Percentage before Reductions		#VALUE!	
(G) Allowable Cumulative Surplus based upon Expenditures		#VALUE!	
(H) Cumulative Surplus REDUCTIONS		#VALUE!	
(h)1 Credited to member districts for tuition, services, etc.		\$-	
(h)2 Deposited to an established trust and/or reserve fund		\$-	
(h)3 Returned (check) to school districts/towns		\$-	
	FY26 Cumulative Surplus after Reductions	#VALUE!	
	FY26 Cumulative Surplus Percentage after Reductions	#VALUE!	