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November 12, 2014

To the Board of Directors
Shore Educational Collaborative

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, and the major fund of Shore Educational Collaborative (the "Collaborative") for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 3, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Collaborative are described in Note A to the financial statements. During the fiscal year ended June 30, 2014, the Collaborative adopted the following Governmental Accounting Standards Board ("GASB") pronouncements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* - This statement provides established accounting and financial reporting standards that recognize certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. The adoption of GASB No. 65 resulted in two changes to the Collaborative's statement of net position. First, the Collaborative recognized as a deferred outflow of resources the accumulated increase in the fair value of its interest rate swap contracts since GASB No. 65 specifically enumerates this as one of the items to be recorded as a deferred outflow or inflow of resources. The fair value of the interest rate swap agreements at June 30, 2014 was \$552,998. Second, the GASB concluded that debt issuance costs should be expensed as incurred so as a result, the Collaborative wrote off \$95,442 of bond issuance costs that had previously been capitalized and were being amortized.
- GASB Statement No. 66, *Technical Corrections - 2012, an amendment of GASB Statements No. 10 and No. 62* - This statement makes certain corrections to previously issued GASB statements of which none of the corrections applied to the Collaborative. Thus, the adoption of GASB No. 66 did not have any impact on the Collaborative's financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of *GASB Statement No. 25* - This statement gives financial reporting information for financial statements of pension plans. Since the Collaborative does not issue pension plan financial statements, the adoption of GASB No. 67 did not have any impact on the Collaborative's financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* - This statement involves how nonexchange financial guarantees should be treated. Since the Collaborative does not have any nonexchange financial guarantees, the adoption of GASB No. 70 did not have any impact on the Collaborative's financial statements.

No other new accounting policies were adopted and the application of other existing policies was not changed during fiscal 2014. We noted no transactions entered into by the Collaborative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Collaborative's financial statements were:

Management's estimate of the depreciable lives and estimated residual value of the capital assets is based on historical usage of the capital assets and an analysis of their remaining usability.

Management's estimate of the liability of other postemployment benefits is based on an actuarial valuation of its obligation which included actuarial assumptions of a 5.5% rate of return on investments (net of investment expenses) and an inflationary rate of 7.00% for fiscal years 2014 through 2019 and 2.5% for fiscal years 2020 and beyond.

Management's estimate of the fair value of the cash flow hedges related to the interest rate swaps on two bonds payable is based on a market-to-market valuation which estimates the net present value of the expected cash flows between the parties to the swap agreements, using relevant mid-market data inputs based on the assumption of no unusual market conditions or forced liquidation and does not include an assessment of nonperformance risk.

Management's estimate of the accrued retroactive salary payments and benefits due to union employees as of June 30, 2014 is based on expected amounts to be paid to the union employees during the fiscal year ended June 30, 2015 based upon the Board of Directors' approved rates of salary increases that are being used in the mediation and negotiations with the unions.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of the bonds payable in Note N to the financial statements due to the materiality of the bonds payable.
- The disclosure of the other postemployment benefits in Note Q to the financial statements due to the materiality of the unfunded other postemployment benefit plan obligation.
- The disclosure of the restatement of the statement of net position required due to the adoption of GASB No. 65 in Note P to the financial statements.
- The disclosure of the current status of negotiations and mediation proceedings with the unions in Notes R and W to the financial statements.
- This disclosure of the current status of approving the new Collaborative Agreement in Note A to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule labeled "Passed Journal Entries Report" summarizes uncorrected misstatements of the financial statements. The net effect of these uncorrected misstatements on the statement of revenues, expenditures, and changes in fund balances - governmental funds is a decrease in fund balances of \$33,210. The net effect of these uncorrected misstatements on the statement of activities is a decrease in net position of \$33,210. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, the attached schedule labeled "Adjusting Journal Entries Report" shows all the material misstatements detected as a result of audit procedures and that were corrected by management. The net effect of these misstatements on the statement of revenues, expenditures, and changes in fund balances - governmental funds is an increase in fund balances of \$7,889. The net effect of these misstatements on the statement of activities is an increase in net position of \$7,889. Furthermore, the attached schedule labeled "Reclassifying Journal Entries Report" shows the material reclassifications that needed to be made to convert the government-wide financial statements to the fund financial statements. The net effect of these reclassifications totaled \$83,346.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Collaborative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Collaborative's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

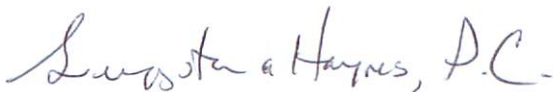
Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison information and schedule of funding progress which are required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Collaborative and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Livingston & Haynes, P.C.", written in dark ink.

Livingston & Haynes, P.C.

Client: *SHO6002 - Shore Educational Collaborative*
Engagement: *AUD2014 - Shore Educational Collaborative*
Period Ending: *6/30/2014*
Trial Balance: *1001.01 - TB*
Workpaper: *130.03 - Passed Journal Entries Report*

130.03

Account	Description	W/P Ref	Debit	Credit	P&L Effect
Passed Journal Entries JE # 31					
		5201.03			
To accrue settlement payments for dismissed paraprofessionals.					
6060-000636	MISC. EXPENSES		22,000.00		
2100-000000	ACCRUED EXPENSES			22,000.00	22,000.00
Total			<u>22,000.00</u>	<u>22,000.00</u>	
Passed Journal Entries JE # 32					
		5204.03			
To accrue unbilled legal fees.					
4800-000636	LEGAL SERVICES		11,210.00		
2100-000000	ACCRUED EXPENSES			11,210.00	11,210.00
Total			<u>11,210.00</u>	<u>11,210.00</u>	33,210.00
					M. pass

Client: **SHO6002 - Shore Educational Collaborative**
Engagement: **AUD2014 - Shore Educational Collaborative**
Trial Balance: **1001.01 - TB**
Workpaper: **130.04 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit	P&L Effect
Adjusting Journal Entries JE # 1 3401.01					
To write-off bond issuance costs as of 7/1/13 and eliminate current year amortization per adoption of GASB 65. use \$25,410.55, 4,450.10,					
1643-000000	BOND ISSUANCE ACCUM DEPR		4,450.00		
1643-000000	BOND ISSUANCE ACCUM DEPR		25,411.00		
1750-000000	AMOUNT PROVIDED FOR BOND ISSU		95,442.00		
2900-000000	GENERAL FUND BALANCE		95,441.00		
1642-000000	BOND ISSUANCE COSTS			120,852.00	
2900-000000	GENERAL FUND BALANCE			95,442.00	
5617-000000	BOND ISSUANCE DEPRECIATION			4,450.00	
Total			220,744.00	220,744.00	(4,450.00)
Adjusting Journal Entries JE # 2 2603.01					
To write-off Woburn Van lease security deposit. -use \$833.93					
5130-000120	VEHICLE LEASES		834.00		
1426-000000	PREPAID VEHICLE LEASE			834.00	
Total			834.00	834.00	834.00
Adjusting Journal Entries JE # 3 4401.01					
To accrued L&H audit fee.					
4810-000636	ACCOUNTING/AUDITING		1,165.00		
2170-000000	ACCURED LEGAL & ACCOUNTING			1,165.00	
Total			1,165.00	1,165.00	1,165.00
Adjusting Journal Entries JE # 4 4408.01					
CLIENT DO NOT MAKE - To reclass MA w/h					
2100-000000	ACCURED EXPENSES		35,128.00		
2150-000601	MASS STATE W/H			35,128.00	
Total			35,128.00	35,128.00	-
Adjusting Journal Entries JE # 5					
CLIENT DO NOT MAKE - To reverse rental income & rental expense.					
3950-000637	RENTAL INCOME		641,600.00		
5000-000105	RENT			214,000.00	
5000-000110	RENT			126,000.00	
5000-000305	RENT			214,000.00	
5000-000510	RENT			12,000.00	
5000-000636	RENT			75,600.00	
Total			641,600.00	641,600.00	-
Adjusting Journal Entries JE # 6					
CLIENT DO NOT MAKE - To allocate interest to programs.					
6120-000105	INTEREST EXPENSE		123,745.00		
6120-000110	INTEREST EXPENSE		72,859.00		
6120-000305	INTEREST EXPENSE		123,745.00		
6120-000510	INTEREST EXPENSE		6,939.00		
6120-000636	INTEREST EXPENSE		43,717.00		
6120-000637	INTEREST EXPENSE			371,005.00	
Total			371,005.00	371,005.00	-
Adjusting Journal Entries JE # 7					
CLIENT DO NOT MAKE - To reverse other income recorded on fixed assets.					
3900-000636	OTHER INCOME		14,940.00		
3900-000636	OTHER INCOME		38,361.00		
3900-000636	OTHER INCOME		124,061.00		
3900-000636	OTHER INCOME		184,615.00		
5511-000105	COMPUTER EQUIPMENT RENTAL			30,281.00	
5511-000110	COMPUTER EQUIPMENT RENTAL			21,092.00	
5511-000120	COMPUTER EQUIPMENT RENTAL			29,470.00	

Client: **SHO6002 - Shore Educational Collaborative**
Engagement: **AUD2014 - Shore Educational Collaborative**
Trial Balance: **1001.01 - TB**
Workpaper: **130.04 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit	P&L Effect
5511-000140	COMPUTER EQUIPMENT RENTAL			23,853.00	
5511-000305	COMPUTER EQUIPMENT RENTAL			49,325.00	
5511-000325	COMPUTER EQUIPMENT RENTAL			6,679.00	
5511-000636	COMPUTER EQUIPMENT RENTAL			201,277.00	
Total			361,977.00	361,977.00	-

Adjusting Journal Entries JE # 8

CLIENT DO NOT MAKE - To reclass onbehalf payments.

3900-000636	OTHER INCOME		327,447.00		
3900-000636	OTHER INCOME		511,364.00		
3900-000900	ON BEHALF PAYMENTS			838,811.00	
Total			838,811.00	838,811.00	-

Adjusting Journal Entries JE # 9

121.04

CLIENT DO NOT MAKE - To record current portion of bonds payable.

2142-000002	CURRENT PORTION - BONDS PAYABLE		47,588.00		
2142-000002	CURRENT PORTION - BONDS PAYABLE		185,484.00		
2142-000001	CURRENT PORTION - BONDS PAYABLE			47,588.00	
2142-000001	CURRENT PORTION - BONDS PAYABLE			185,484.00	
Total			233,072.00	233,072.00	-

Adjusting Journal Entries JE # 10

5010.01

To record interest rate swap.

1450-000000	ACC FAIR VALUE OF INTEREST RATE SWAP		562,998.00		
2195-000000	INTEREST RATE SWAP LIABILITY			562,998.00	
Total			562,998.00	562,998.00	- (A)

Adjusting Journal Entries JE # 11

4401.01

To reverse accrued retiree health insurance - already accrued.

2120-000000	ACCURED FRINGE BENEFITS		5,577.00		
4650-000105	RETIREE INSURANCE EXPENSE			5.00	
4650-000110	RETIREE INSURANCE EXPENSE			996.00	
4650-000120	RETIREE INSURANCE EXPENSE			1,508.00	
4650-000140	RETIREE INSURANCE EXPENSE			1,333.00	
4650-000150	RETIREE INSURANCE EXPENSE			186.00	
4650-000305	RETIREE INSURANCE EXPENSE			5.00	
4650-000305	RETIREE INSURANCE EXPENSE			18.00	
4650-000305	RETIREE INSURANCE EXPENSE			32.00	
4650-000305	RETIREE INSURANCE EXPENSE			41.00	
4650-000450	RETIREE INSURANCE EXPENSE			89.00	
4650-000510	RETIREE INSURANCE EXPENSE			127.00	
4650-000636	RETIREE INSURANCE EXPENSE			17.00	
4650-000636	RETIREE INSURANCE EXPENSE			42.00	
4650-000636	RETIREE INSURANCE EXPENSE			49.00	
4650-000636	RETIREE INSURANCE EXPENSE			52.00	
4650-000636	RETIREE INSURANCE EXPENSE			52.00	
4650-000636	RETIREE INSURANCE EXPENSE			72.00	
4650-000636	RETIREE INSURANCE EXPENSE			88.00	
4650-000636	RETIREE INSURANCE EXPENSE			865.00	
Total			5,577.00	5,577.00	(5,577.00)

Adjusting Journal Entries JE # 12

4406.01

To reverse accrued fringe benefits - teacher's

2120-000000	ACCURED FRINGE BENEFITS		3,093.00		
4650-000105	RETIREE INSURANCE EXPENSE			209.00	
4650-000105	RETIREE INSURANCE EXPENSE			752.00	
4650-000205	RETIREE INSURANCE EXPENSE			50.00	
4650-000243	RETIREE INSURANCE EXPENSE			158.00	
4650-000305	RETIREE INSURANCE EXPENSE			759.00	

Client: **SHO6002 - Shore Educational Collaborative**
Engagement: **AUD2014 - Shore Educational Collaborative**
Trial Balance: **1001.01 - TB**
Workpaper: **130.04 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit	P&L Effect
4650-000325	RETIREE INSURANCE EXPENSE			1,017.00	
4650-000405	RETIREE INSURANCE EXPENSE			148.00	
Total			3,093.00	3,093.00	(3,093.00)
Adjusting Journal Entries JE # 13					
To reverse accrued fringe benefits - para"s.		4406.01			
2120-000000	ACCRUED FRINGE BENEFITS		1,414.00		
4650-000105	RETIREE INSURANCE EXPENSE			37.00	
4650-000105	RETIREE INSURANCE EXPENSE			631.00	
4650-000205	RETIREE INSURANCE EXPENSE			75.00	
4650-000305	RETIREE INSURANCE EXPENSE			495.00	
4650-000325	RETIREE INSURANCE EXPENSE			99.00	
4650-000405	RETIREE INSURANCE EXPENSE			77.00	
Total			1,414.00	1,414.00	(1,414.00)
Adjusting Journal Entries JE # 14					
To adjust the retiree health insurance to actual.		4406.01			
4650-000636	RETIREE INSURANCE EXPENSE		3,025.00		
4600-000636	MEDICAL INSURANCE			3,025.00	
Total			3,025.00	3,025.00	-

Client: *SHO6002 - Shore Educational Collaborative*
Engagement: *AUD2014 - Shore Educational Collaborative*
Trial Balance: *1001.01 - TB*
Workpaper: *130.04 - Adjusting Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit	P&L Effect
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Adjusting Journal Entries JE # 15		4411.01			
To adjust dental insurance w/h					
4601-000105	DENTAL INSURANCE		2,323.00		
4601-000205	DENTAL INSURANCE		2,323.00		
2167-000628	DENTAL INSURANCE W/H			4,646.00	
Total			<u>4,646.00</u>	<u>4,646.00</u>	4,646.00
Adjusting Journal Entries JE # 16		2301.01			
CLIENT DO NOT MAKE - To reclass credit balances to A/P.					
1100-000000	ACCOUNTS RECEIVABLE		11,866.00		
2000-000000	ACCOUNTS PAYABLE			11,866.00	
Total			<u>11,866.00</u>	<u>11,866.00</u>	-
Adjusting Journal Entries JE # 17					
CLIENT DO NOT MAKE - To reclass restricted cash to restricted fund balance.					
2900-000000	GENERAL FUND BALANCE		119,917.00		
2238-000000	RESERVE FOR RESTRICTED CASH			119,917.00	
Total			<u>119,917.00</u>	<u>119,917.00</u>	-

Client: *SHO6002 - Shore Educational Collaborative*
Engagement: *AUD2014 - Shore Educational Collaborative*
Trial Balance: *1001.01 - TB*
Workpaper: *130.04 - Adjusting Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit	P&L Effect
Adjusting Journal Entries JE # 29					
		5404.01			
CLIENT DO NOT MAKE - To record encumbrances.					
2900-000000	GENERAL FUND BALANCE		301,594.00		
2900-000050	ENCUMBRANCES - ADULT DAY PROGRAM			54,444.00	
2900-000075	ENCUMBRANCES - FRINGE BENEFITS			241,815.00	
2900-000076	ENCUMBRANCES - OTHER PURPOSES			5,335.00	
Total			<u>301,594.00</u>	<u>301,594.00</u>	-
Adjusting Journal Entries JE # 30					
CLIENT DO NOT MAKE - To close out P&L.					
2999-000000	P&L Summary		1,052,574.00		
2999-999999	NET INCOME OFFSET			1,052,574.00	
Total			<u>1,052,574.00</u>	<u>1,052,574.00</u>	-

(7,889.00)

Ⓐ - These entries are considered material.

Client: *SHO6002 - Shore Educational Collaborative*
Engagement: *AUD2014 - Shore Educational Collaborative*
Trial Balance: *1001.01 - TB*
Workpaper: *130.05 - Reclassifying Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit	P&L Effect
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Reclassifying Journal Entries JE # 18 2600.01
To match prepaid expenses.

2900-000000	GENERAL FUND BALANCE		6,518.00		
2601-000000	RESERVE FOR PREPAID EXP & OTHE			6,518.00	
Total			<u>6,518.00</u>	<u>6,518.00</u>	-

Reclassifying Journal Entries JE # 19 5000.01
To record correct amount of LTD.

2900-000000	GENERAL FUND BALANCE		220,346.00		
1700-000000	AMOUNT PROVIDED FOR LTD			220,346.00	
Total			<u>220,346.00</u>	<u>220,346.00</u>	-

Reclassifying Journal Entries JE # 20 5001.01
To record debt service through interest expense and payments on bonds payable.

9500-000000	DEBT SERVICE		591,351.00		
2900-000000	GENERAL FUND BALANCE			220,346.00	
6120-000105	INTEREST EXPENSE			123,745.00	
6120-000110	INTEREST EXPENSE			72,859.00	
6120-000305	INTEREST EXPENSE			123,745.00	
6120-000510	INTEREST EXPENSE			6,939.00	
6120-000636	INTEREST EXPENSE			43,717.00	
Total			<u>591,351.00</u>	<u>591,351.00</u>	220,346.00 (A)

Client: **SHO6002 - Shore Educational Collaborative**
Engagement: **AUD2014 - Shore Educational Collaborative**
Trial Balance: **1001.01 - TB**
Workpaper: **130.05 - Reclassifying Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit	P&L Effect
Reclassifying Journal Entries JE # 23					
To reclass general fixed assets.					
2600-000000	INVESTMENT IN GEN FIXED ASSETS	3201.01	137,000.00		
2900-000000	GENERAL FUND BALANCE			137,000.00	
Total			<u>137,000.00</u>	<u>137,000.00</u>	-
Reclassifying Journal Entries JE # 24					
To eliminate depreciation per GASB.					
2900-000000	GENERAL FUND BALANCE	3201.01	491,888.00		
5610-000000	DEPRECIATION FIXED ASSETS			168,509.00	
5611-000000	DEPRECIATION LEASE IMPROVEMENT			35,669.00	
5614-000000	DEPRECIATION ON BUILDING			150,152.00	
5615-000000	DEPRECIATION ON BUILD IMPROVEM			136,225.00	
5616-000000	AMORTIZATION-LOGO COSTS			1,333.00	
Total			<u>491,888.00</u>	<u>491,888.00</u>	(491,888.00) (A)
Reclassifying Journal Entries JE # 25					
To record capital assets.					
9600-000000	CAPITAL ADDITIONS	3201.01	354,888.00		
2900-000000	GENERAL FUND BALANCE			354,888.00	354,888.00 (A)
Total			<u>354,888.00</u>	<u>354,888.00</u>	

83,346.00

(A) - These entries are considered material.