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November 11, 2013

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, 2013. 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, 2013. 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, 2013, the Collaborative adopted the following Governmental Accounting Standards Board ("GASB") pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* - Since the Collaborative has no service concession arrangements, the adoption of GASB 60 did not have any impact on the Collaborative's financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* - This statement gives additional criteria for classifying entities as component units. The adoption of GASB 61 did not have any impact on the Collaborative's financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - This statement incorporates pronouncements contained in pre-November 30, 1989 FASB and AICPA Pronouncements into GASB authoritative literature. The adoption of GASB 62 did not have any impact on the Collaborative's financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – This statement provides guidance on reporting deferred outflows of resources, deferred inflows of resources, and net positions in a statement of net position and related disclosures. As a result, the Collaborative renamed its statement of net assets to the statement of net position. However, for the year ended June 30, 2013, the Collaborative did not have any items that qualified as deferred inflows or outflows of resources.

No other new accounting policies were adopted and the application of other existing policies was not changed during fiscal 2013. 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 7.75% for fiscal years 2013 through 2019 and 2.5% for fiscal years 2020 and beyond.

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 and the disclosure of the other postemployment benefits in Note P to the financial statements due to the materiality of the unfunded other postemployment benefit plan obligation.

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. 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 were corrected by management. The net effect of these misstatements on the statement of revenues, expenditures, and changes in fund balances - governmental funds is a reduction in fund balances of \$885. The net effect of these misstatements on the statement of activities is a reduction in net position of \$885. 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 \$126,362.

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 11, 2013.

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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. 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.

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 black ink that reads "Livingston & Haynes, P.C." with a stylized flourish at the end.

Livingston & Haynes, P.C.

Client: **SHO6002 - Shore Educational Collaborative**
 Engagement: **AUD2013 - Shore Educational Collaborative**
 Period Ending: **6/30/2013**
 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 # 8					
		4404.01			
	To agree to L&H calculation of health insurance w/h.				
4600-000636	MEDICAL INSURANCE		1,118.00		
2154-000606	HEALTH INSURANCE W/H			1,118.00	
Total			<u>1,118.00</u>	<u>1,118.00</u>	1,118.00
Passed Journal Entries JE # 12					
		4502.00			
	To agree accrued salaries to L&H calculation.				
4650-000636	RETIREE INSURANCE EXPENSE		2,630.00		
2120-000000	ACCRUED FRINGE BENEFITS			2,630.00	
Total			<u>2,630.00</u>	<u>2,630.00</u>	2,630.00
Passed Journal Entries JE # 13					
		3208.01			
	To capitalize benefits related to Jaya's salary for the adult services database.				
1530-000000	FIXED ASSETS		7,807.00		
4500-000636	MASS RETIREMENT			2,908.00	
4600-000636	MEDICAL INSURANCE			3,600.00	
4650-000636	RETIREE INSURANCE EXPENSE			1,299.00	
Total			<u>7,807.00</u>	<u>7,807.00</u>	(7,807.00)
					(4,059.00)
					M, pass

Client: **SHO6002 - Shore Educational Collaborative**
 Engagement: **AUD2013 - 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					
CLIENT DO NOT MAKE - To reverse rental income & rental expense.					
3950-000637	RENTAL INCOME		611,500.00		
5000-000105	RENT			204,000.00	
5000-000110	RENT			120,000.00	
5000-000305	RENT			204,000.00	
5000-000510	RENT			12,000.00	
5000-000636	RENT			71,500.00	
Total			611,500.00	611,500.00	-

Adjusting Journal Entries JE # 2					
CLIENT DO NOT MAKE - To allocate interest to programs.					
6120-000105	INTEREST EXPENSE		120,939.00		
6120-000110	INTEREST EXPENSE		71,140.00		
6120-000305	INTEREST EXPENSE		120,939.00		
6120-000510	INTEREST EXPENSE		7,114.00		
6120-000636	INTEREST EXPENSE		42,525.00		
6120-000637	INTEREST EXPENSE			362,657.00	
Total			362,657.00	362,657.00	-

Adjusting Journal Entries JE # 3					
CLIENT DO NOT MAKE - To reverse other income recorded on fixed assets.					
3900-000636	OTHER INCOME		7,088.00		
3900-000636	OTHER INCOME		8,300.00		
3900-000636	OTHER INCOME		10,122.00		
3900-000636	OTHER INCOME		78,868.00		
4010-000636	DIRECT CARE SALARIES			51,933.00	
4840-000650	CONTRACTED SERVICES			7,088.00	
5511-000105	COMPUTER EQUIPMENT RENTAL			1,701.00	
5511-000105	COMPUTER EQUIPMENT RENTAL			1,846.00	
5511-000110	COMPUTER EQUIPMENT RENTAL			1,063.00	
5511-000110	COMPUTER EQUIPMENT RENTAL			1,701.00	
5511-000120	COMPUTER EQUIPMENT RENTAL			2,235.00	
5511-000120	COMPUTER EQUIPMENT RENTAL			8,300.00	
5511-000305	COMPUTER EQUIPMENT RENTAL			1,701.00	
5511-000305	COMPUTER EQUIPMENT RENTAL			1,846.00	
5511-000636	COMPUTER EQUIPMENT RENTAL			5,019.00	
5511-000636	COMPUTER EQUIPMENT RENTAL			19,945.00	
Total			104,378.00	104,378.00	-

Adjusting Journal Entries JE # 4					
To agree retiree health insurance to actuary report.					
		4406.01			
4600-000636	MEDICAL INSURANCE		577.00		
4650-000636	RETIREE INSURANCE EXPENSE			577.00	
Total			577.00	577.00	-

Adjusting Journal Entries JE # 5					
CLIENT DO NOT MAKE - To reclass Mass state W/H for June 2013.					
		4408.01			
2100-000000	ACCRUED EXPENSES		35,074.00		
2150-000601	MASS STATE W/H			35,074.00	
Total			35,074.00	35,074.00	-

Client: **SHO6002 - Shore Educational Collaborative**
 Engagement: **AUD2013 - 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 # 6		4401.01			
To adjust audit fee for FY2013.					
4810-000636	ACCOUNTING/AUDITING		885.00		
2170-000000	ACCRUED LEGAL & ACCOUNTING			885.00	
Total			885.00	885.00	885.00
Adjusting Journal Entries JE # 7		5006.01			
CLIENT DO NOT MAKE - To record current portion of bonds payable.					
2142-000002	CURRENT PORTION - BONDS PAYABLE		45,206.00		
2142-000002	CURRENT PORTION - BONDS PAYABLE		175,140.00		
2142-000001	CURRENT PORTION - BONDS PAYABLE			45,206.00	
2142-000001	CURRENT PORTION - BONDS PAYABLE			175,140.00	
Total			220,346.00	220,346.00	-
Adjusting Journal Entries JE # 9					
CLIENT DO NOT MAKE - To reclass restricted cash to restricted fund balance.					
2900-000000	GENERAL FUND BALANCE		281,733.00		
2238-000000	RESERVE FOR RESTRICTED CASH			281,733.00	
Total			281,733.00	281,733.00	-
Adjusting Journal Entries JE # 10		121.06			
CLIENT DO NOT MAKE - To record encumbrances.					
2900-000000	GENERAL FUND BALANCE		273,185.00		
2900-000050	ENCUMBRANCES - ADULT DAY PROGRAM			50,176.00	
2900-000075	ENCUMBRANCES - FRINGE BENEFITS			213,741.00	
2900-000076	ENCUMBRANCES - OTHER PURPOSES			9,268.00	
Total			273,185.00	273,185.00	-
Adjusting Journal Entries JE # 11		121.15			
To record on-behalf payments for the teachers" and Mass retirement.					
9900-000900	ON BEHALF PAYMENTS		303,836.00		
9900-000900	ON BEHALF PAYMENTS		441,360.00		
3900-000900	ON BEHALF PAYMENTS			303,836.00	
3900-000900	ON BEHALF PAYMENTS			441,360.00	
Total			745,196.00	745,196.00	-
Adjusting Journal Entries JE # 14		6104.03			
CLIENT DO NOT MAKE - To reclass capital grant.					
3100-000120	DEPT OF MENTAL HEALTH		2,235.00		
3650-000120	GRANT INCOME - CAPITAL GRANT			2,235.00	
Total			2,235.00	2,235.00	-

Client: **SHO6002 - Shore Educational Collaborative**
 Engagement: **AUD2013 - 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 # 29

CLIENT DO NOT MAKE - To close out P&L.

2999-000000	P&L Summary		1,713,796.00		
2999-999999	NET INCOME OFFSET			1,713,796.00	
Total			<u>1,713,796.00</u>	<u>1,713,796.00</u>	-

Adjusting Journal Entries JE # 30

To reclass overhead - use \$687.53.

3900-000636	OTHER INCOME		688.00		
3910-000636	OVERHEAD INCOME			688.00	
Total			<u>688.00</u>	<u>688.00</u>	-

885.00

Client: **SHO6002 - Shore Educational Collaborative**
Engagement: **AUD2013 - Shore Educational Collaborative**
Trial Balance: **1001.01 - TB**
Workpaper: **130.04 - Adjusting Journal Entries Report**

<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>	<u>P&L Effect</u>
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Ⓐ - These entries are considered material.

Client: **SH06002 - Shore Educational Collaborative**
 Engagement: **AUD2013 - 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 # 15					
To match prepaid expenses.					
		2600.01			
2601-000000	RESERVE FOR PREPAID EXP & OTHE		3,786.00		
2900-000000	GENERAL FUND BALANCE			3,786.00	
Total			<u><u>3,786.00</u></u>	<u><u>3,786.00</u></u>	-
Reclassifying Journal Entries JE # 16					
To record correct amount of LTD.					
		5000.01			
2900-000000	GENERAL FUND BALANCE		257,743.00		
1700-000000	AMOUNT PROVIDED FOR LTD			257,743.00	
Total			<u><u>257,743.00</u></u>	<u><u>257,743.00</u></u>	-
Reclassifying Journal Entries JE # 17					
To record debt service through interest expense and payments on bonds payable.					
		5001.01			
9500-000000	DEBT SERVICE		622,821.00		
2900-000000	GENERAL FUND BALANCE			257,743.00	
6120-000105	INTEREST EXPENSE			120,939.00	
6120-000110	INTEREST EXPENSE			71,140.00	
6120-000140	INTEREST EXPENSE			1,999.00	
6120-000305	INTEREST EXPENSE			120,939.00	
6120-000510	INTEREST EXPENSE			7,114.00	
6120-000636	INTEREST EXPENSE			42,947.00	
Total			<u><u>622,821.00</u></u>	<u><u>622,821.00</u></u>	257,743.00 (A)
Reclassifying Journal Entries JE # 18					
To reclass general fixed assets.					
		3201.01			
2600-000000	INVESTMENT IN GEN FIXED ASSETS		379,655.00		
2900-000000	GENERAL FUND BALANCE			379,655.00	
Total			<u><u>379,655.00</u></u>	<u><u>379,655.00</u></u>	-

Client: **SH06002 - Shore Educational Collaborative**
 Engagement: **AUD2013 - 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 # 19		3201.01			
To eliminate depreciation per GASB.					
2900-000000	GENERAL FUND BALANCE		484,033.00		
5610-000000	DEPRECIATION FIXED ASSETS			165,570.00	
5611-000000	DEPRECIATION LEASE IMPROVEMENT			33,249.00	
5614-000000	DEPRECIATION ON BUILDING			150,152.00	
5615-000000	DEPRECIATION ON BUILD IMPROVEM			133,729.00	
5616-000000	AMORTIZATION-LOGO COSTS			1,333.00	
Total			484,033.00	484,033.00	(484,033.00) (A)
Reclassifying Journal Entries JE # 20		3201.01			
To record capital assets.					
9600-000000	CAPITAL ADDITIONS		104,378.00		
2900-000000	GENERAL FUND BALANCE			104,378.00	
Total			104,378.00	104,378.00	104,378.00 (A)
Reclassifying Journal Entries JE # 21		3400.01			
To eliminate bond issuance costs.					
1750-000000	AMOUNT PROVIDED FOR BOND ISSU		4,450.00		
2900-000000	GENERAL FUND BALANCE			4,450.00	
Total			4,450.00	4,450.00	-
Reclassifying Journal Entries JE # 22		3400.01			
To eliminate amortization.					
2900-000000	GENERAL FUND BALANCE		4,450.00		
5617-000000	BOND ISSUANCE DEPRECIATION			4,450.00	
Total			4,450.00	4,450.00	(4,450.00)
					(126,362.00)

(A) - These entries are considered material.