



November 13, 2018

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, 2018. 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 June 29, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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, 2018, the Collaborative adopted the following Governmental Accounting Standards Board ("GASB") pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. This statement provides guidance on employer reporting for employer governmental entities whose employees are provided with other postemployment benefits ("OPEB"). The statement requires immediate recognition of the total OPEB liability on the statement of net position. The beginning net position on the government-wide financial statements as a result of the cumulative effect of this change in accounting principle decreased in the amount of \$2,974,299 from the amount previously reported in the financial statements for the year ended June 30, 2017. The statement also does not allow recognition of the total OPEB liability on its governmental funds balance sheet since it is considered a long-term liability. Thus, the beginning fund balances on the governmental funds balance sheet as a result of the cumulative effect of this change in accounting principle increased in the amount of \$3,656,825 from the amount previously reported in the financial statements for the year ended June 30, 2017.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable

to the reporting period. The adoption of GASB Statement No. 81 does not have any impact on the Collaborative's financial statements.

- GASB Statement No. 85, *Omnibus 2017*. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. The adoption of GASB Statement No. 85 does not have any impact on the Collaborative's financial statements.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This statement provides guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The adoption of GASB Statement No. 86 does 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 2018. 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 discount rate, healthcare trend rates, general inflation rate, annual compensation increases, and mortality rates.

Management's estimate of the fair value of the cash flow hedges related to the interest rate swaps on a bond 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 allocation of costs to programs and general and administrative expenses.

Management's estimate of pension on-behalf payments is based on the audited pension plan financial statements issued by the retirement systems for the Massachusetts Teachers' Retirement Plan and the Massachusetts State Employees' Retirement Plan.

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.